Health Care Financing

# RESEARCH BRIEF

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**They are based on data from the Medicare statistical files developed and maintained by the Bureau of Data Management and Strategy, Health Care Financing Administration**

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Research Brief No. 87-3

# Medicare: Deductible and Coinsurance Amounts Incurred by Beneficiaries Discharged from Short-Stay Hospitals, 1983-84

# Medicare: Deductible and Coinsurance Amounts Incurred by Beneficiaries Discharged from Short-Stay Hospitals, 1983-84

This Research Brief presents data on the amount of hospital insurance (HI) deductible and coinsurance liabilities incurred by Medicare beneficiaries discharged from participating short-stay hospitals during 1984. It compares these liabilities, incurred during the first full year of the Medicare prospective payment system (PPS), with comparable data in 1983. PPS, part of the Social Security Amendments of 1983 (Public Law 98-21), is designed to curb the rapid growth in Medicare hospital costs. On October 1, 1983, PPS replaced, for the most part, the retrospective cost-based payment system. PPS pays most participating short-stay hospitals a predetermined fixed rate per discharge according to the diagnosis-related group assigned to each patient.

Under the HI program, a beneficiary receiving covered services under Medicare is subject to a deductible and coinsurance amount during each benefit period. There is no limit to the number of benefit periods a beneficiary can have. A benefit period starts when the beneficiary enters the hospital as an inpatient and ends when the beneficiary has not been an inpatient of a hospital or a skilled nursing facility for 60 consecutive days.

After the beneficiary pays the inpatient deductible (the deductible was $304 in 1983 and $356 in 1984), the HI program pays for all covered inpatient hospital services through the 60th day in a benefit period. From the 61st through the 90th day of hospitalization, the beneficiary pays a daily coinsurance amount equivalent to one-fourth of the deductible--$76 a day in 1983 and $89 a day in 1984. Beginning with the 91st day through the 150th day, the beneficiary can elect to use lifetime reserve days and to pay a daily coinsurance amount equivalent to one-half of the deductible--$152 a day in 1983 and $178 a day in 1984. The amount of the annual deductible is revised on a calendar-year basis through a formula that reflects the annual increase in the average cost of 1 day of inpatient hospital care.

For the aged population, Medicare paid an estimated 74.9 percent ($40.5 billion) of all personal hospital care expenditures ($54.1 billion) during 1984. Medicaid paid 4.8 percent ($2.6 billion) and all other government programs accounted for an estimated 9.1 percent ($4.9 billion). The private sector paid the remaining 11.1 percent ($6.0 billion), including $3.2 billion in Medicare beneficiary cost-sharing liability (deductible and coinsurance) shown in this report.

This Brief provides program data to serve as background in the development of an insurance plan to protect beneficiaries against catastrophic health care expenses. Currently, the Medicare program has coverage gaps that leave the aged and disabled vulnerable to catastrophic out-of-pocket expenses, especially those associated with long hospital stays. The Department of Health and Human Services now has before Congress a Medicare catastrophic insurance proposal which eliminates the benefit period. This proposal would place an annual limit on beneficiary out-of-pocket expenses incurred because of the Part A and Part B deductible and coinsurance liabilities. Part A limitations on the number of coinsurance and lifetime reserve days would be removed, and the number of HI deductibles would be limited to two per year. Part B deductibles and coinsurance liabilities would remain unchanged.

This Research Brief was prepared by Martin Ruther in the Division of Program Studies of the Office of Research. For additional information or for suggestions regarding future topics, please call Charles Helbing at (301) 597-1420 or FTS 987-1420, or Martin Ruther at (301) 597-1429.

## Selected data highlights

### Tables 1-4: Beneficiary hospital insurance cost-sharing liability, 1984

These tables provide information on hospital insurance (HI) cost-sharing liability (deductible and coinsurance) incurred by Medicare beneficiaries discharged from short-stay hospitals during 1984.

Table 1 shows that during this period an estimated 6.6 million aged and disabled beneficiaries, or about 22 percent of all enrollees, used short-stay hospital inpatient services under the Medicare program. Beneficiary cost-sharing liability amounted to $3.2 billion or $478 per person. Aged persons (6.0 million) accounted for an estimated 90.4 percent of all persons using short-stay hospital services and 89.2 percent of all beneficiary cost-sharing liability ($2.8 billion). The average liability per person for aged enrollees ($472) was somewhat less than that for disabled enrollees ($534).

Approximately 96 percent (6.4 million) of all beneficiaries using Medicare short-stay hospital services incurred a cost-sharing liability of less than $1,000. The cost-sharing liability for these beneficiaries totaled $2.6 billion, accounting for nearly 83 percent of the total liability ($3.2 billion). Their average cost-sharing expense was $412 per user. Ninety-nine percent of this liability was for payment of the inpatient deductible (Figure 1).

Conversely, about 4 percent (249,200) of all short-stay hospital beneficiaries incurred a cost-sharing liability of more than $1,000. Their cost-sharing expenses totaled $540 million, accounting for about 17 percent of all beneficiary liability. The average cost-sharing expense for these beneficiaries was $2,171 per user. Sixty-seven percent of this liability involved the use of coinsurance and lifetime reserve days.

Table 2 shows that the deductible accounted for 88 percent ($2.8 billion) of the beneficiary cost-sharing liability associated with inpatient hospital services. Nearly 82 percent (5.5 million) of all beneficiaries discharged in 1984 incurred a single deductible, 15 percent (1.0 million) had two deductibles, and 2 percent (0.1 million) had three or more deductibles. An estimated 1 percent (55.0 thousand) of the beneficiaries incurred a deductible in 1983 but were discharged from the hospital during 1984 (Figure 2). A larger proportion of disabled patients (22 percent) incurred two or more deductibles than did those of aged patients (17 percent).

As shown in Table 3, of the 6.6 million beneficiaries incurring liabilities related to hospitalization in 1984, only an estimated 168.5 thousand (2.5 percent) utilized coinsurance days, lifetime reserve days, or both. These beneficiaries used 3.4 million coinsurance days or about 20.2 days per user. Coinsurance liability amounted to $0.38 billion or $2,273 per user. Nearly one-fourth (39,460) of those beneficiaries incurring cost-sharing days used 30 days or more, accounting for 56 percent (1.89 million) of all coinsurance days and 62 percent ($0.24 billion) of all liability (Figure 3). The average coinsurance liability for beneficiaries with 30 coinsurance days or more was $6,012 per person.

Table 1

Medicare: Number of persons and amount of hospital insurance (HI) cost-sharing liability for beneficiaries discharged from short-stay hospitals, by type of enrollment and amount of beneficiary liability, 1984

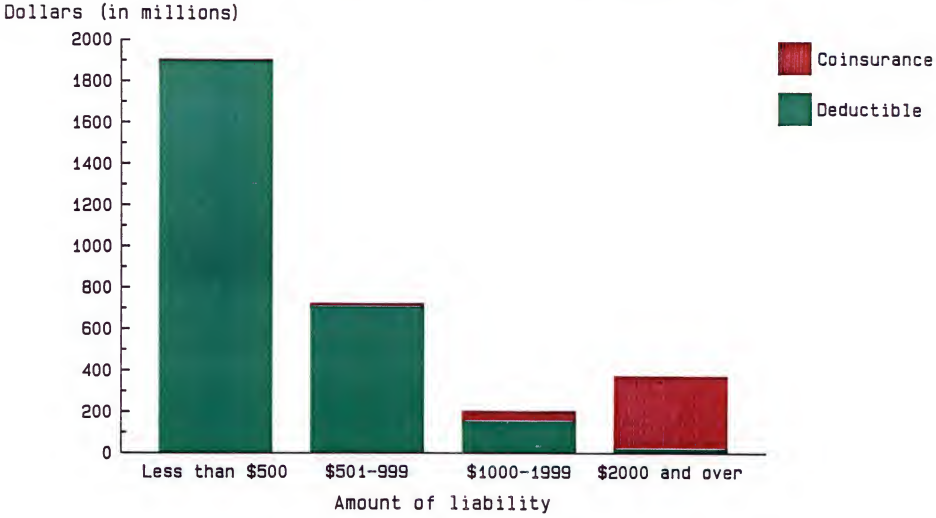
| Type of enrollment and amount of beneficiary liability | Number of persons in thousands | Beneficiary HI cost-sharing liability | | | | | |
|---|---|---|---|---|---|---|---|
| | | Total | | Deductible | | Coinsurance 1/ | |
| | | Amount in millions | Per person | Amount in millions | Per person | Amount in millions | Per person |
| **All persons** | | | | | | | |
| Total | 6,647.4 | $3,175 | $478 | $2,792 | $424 | $383 | $2,273 |
| Less than $500 | 5,375.6 | 1,906 | 355 | 1,903 | 355 | 3 | 211 |
| $501 - $999 | 1,022.6 | 727 | 711 | 711 | 702 | 16 | 472 |
| $1,000 - $1,999 | 175.0 | 205 | 1,173 | 156 | 955 | 50 | 1,092 |
| $2,000 - $2,999 | 33.0 | 79 | 2,403 | 10 | 440 | 69 | 2,085 |
| $3,000 - $3,999 | 13.2 | 44 | 3,338 | 5 | 458 | 39 | 2,987 |
| $4,000 - $4,999 | 6.5 | 29 | 4,491 | 2 | 429 | 28 | 4,232 |
| $5,000 - $9,999 | 15.2 | 107 | 7,053 | 4 | 414 | 103 | 6,800 |
| $10,000 or more | 6.3 | 77 | 12,116 | 1 | 376 | 75 | 11,885 |
| **Aged** | | | | | | | |
| Total | 6,006.7 | 2,833 | 472 | 2,509 | 421 | 324 | 2,239 |
| Less than $500 | 4,894.2 | 1,736 | 355 | 1,733 | 355 | 3 | 212 |
| $501 - $999 | 901.8 | 641 | 711 | 627 | 702 | 14 | 476 |
| $1,000 - $1,999 | 148.0 | 174 | 1,173 | 131 | 953 | 43 | 1,099 |
| $2,000 - $2,999 | 28.1 | 67 | 2,400 | 9 | 436 | 59 | 2,087 |
| $3,000 - $3,999 | 11.1 | 37 | 3,334 | 4 | 456 | 33 | 2,990 |
| $4,000 - $4,999 | 5.5 | 25 | 4,498 | 1 | 423 | 23 | 4,246 |
| $5,000 - $9,999 | 12.8 | 90 | 7,050 | 3 | 412 | 87 | 6,799 |
| $10,000 or more | 5.2 | 63 | 12,136 | 1 | 372 | 62 | 11,905 |
| **Disabled 2/** | | | | | | | |
| Total | 640.7 | 342 | 534 | 283 | 443 | 59 | 2,483 |
| Less than $500 | 481.4 | 171 | 355 | 170 | 355 | (3/) | 200 |
| $501 - $999 | 120.8 | 86 | 712 | 84 | 702 | 2 | 465 |
| $1,000 - $1,999 | 27.0 | 32 | 1,185 | 25 | 968 | 7 | 1,049 |
| $2,000 - $2,999 | 4.9 | 12 | 2,449 | 2 | 458 | 10 | 2,071 |
| $3,000 - $3,999 | 2.1 | 7 | 3,333 | 1 | 468 | 6 | 2,974 |
| $4,000 - $4,999 | 1.0 | 4 | 4,000 | (3/) | 462 | 4 | 4,156 |
| $5,000 - $9,999 | 2.4 | 17 | 7,083 | 1 | 421 | 16 | 6,801 |
| $10,000 or more | 1.1 | 13 | 11,818 | (3/) | 382 | 13 | 11,791 |

1/ Includes amounts for coinsurance days and lifetime reserve days.
2/ Includes persons with end stage renal disease.
3/ Less than $0.5 million.

SOURCES: Health Care Financing Administration, Bureau of Data Management and Strategy: Data from the Medicare Statistical System, 1984; Health Care Financing Administration, Office of Research and Demonstrations: Data from the Medicare Statistical System, 1984.

Figure 1

Medicare: Distribution of HI cost-sharing liability for short-stay hospital services, by type and amount of liability, 1984




Source: Office of Research and Demonstrations

Table 2

Medicare: Number of persons incurring a hospital insurance (HI) deductible, number of deductibles, and amount of deductible liability for beneficiaries discharged from short-stay hospitals, by type of enrollment and number of deductibles, 1984

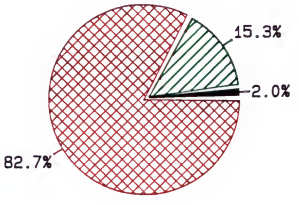
| Type of enrollment and number of deductibles | Persons | | HI deductible | | | |
|---|---|---|---|---|---|---|
| | Number in thousands | Percent | Number in thousands | Percent | Amount in millions | Percent |
| All persons | | | | | | |
| Total deductibles | 6,647 | 100.0 | 7,873 | 100.0 | $2,792 | 100.0 |
| No deductible 1/ | 55 | 0.8 | 0 | 0.0 | 0 | 0.0 |
| 1 deductible | 5,450 | 82.0 | 5,450 | 69.2 | 1,933 | 69.2 |
| 2 deductibles | 1,010 | 15.2 | 2,020 | 25.7 | 716 | 25.7 |
| 3 or more deductibles | 132 | 2.0 | 404 | 5.1 | 143 | 5.1 |
| Aged | | | | | | |
| Total deductibles | 6,008 | 100.0 | 7,075 | 100.0 | 2,509 | 100.0 |
| No deductible 1/ | 50 | 0.8 | 0 | 0.0 | 0 | 0.0 |
| 1 deductible | 4,958 | 82.5 | 4,958 | 70.1 | 1,758 | 70.1 |
| 2 deductibles | 889 | 14.8 | 1,779 | 25.1 | 631 | 25.1 |
| 3 or more deductibles | 111 | 1.9 | 339 | 4.8 | 120 | 4.8 |
| Disabled 2/ | | | | | | |
| Total deductibles | 639 | 100.0 | 798 | 100.0 | 283 | 100.0 |
| No deductible 2/ | 5 | 0.8 | 0 | 0.0 | 0 | 0.0 |
| 1 deductible | 492 | 77.0 | 492 | 61.7 | 175 | 61.8 |
| 2 deductibles | 121 | 18.9 | 241 | 30.2 | 85 | 30.1 |
| 3 or more deductibles | 21 | 3.5 | 65 | 8.1 | 23 | 8.1 |

1/ Represents persons who incurred a deductible in 1983 but were discharged in 1984.
2/ Includes persons with end stage renal disease.

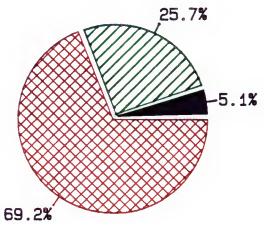
SOURCES: Health Care Financing Administration, Bureau of Data Management and Strategy: Data from the Medicare Statistical System, 1984; Health Care Financing Administration, Office of Research and Demonstrations: Data from the Medicare Statistical System, 1984.

## Figure 2

Medicare: Percent distribution of persons and HI deductible liability for short-stay hospital services, by number of deductibles, 1984




Persons




Amount of deductible liability

1 deductible
2 deductibles
3 or more deductibles

SOURCE: Office of Research and Demonstrations

Table 3

Medicare: Number of persons and amount of hospital insurance (HI) coinsurance liability for beneficiaries discharged from short-stay hospitals, by type of enrollment and number of coinsurance days, 1984

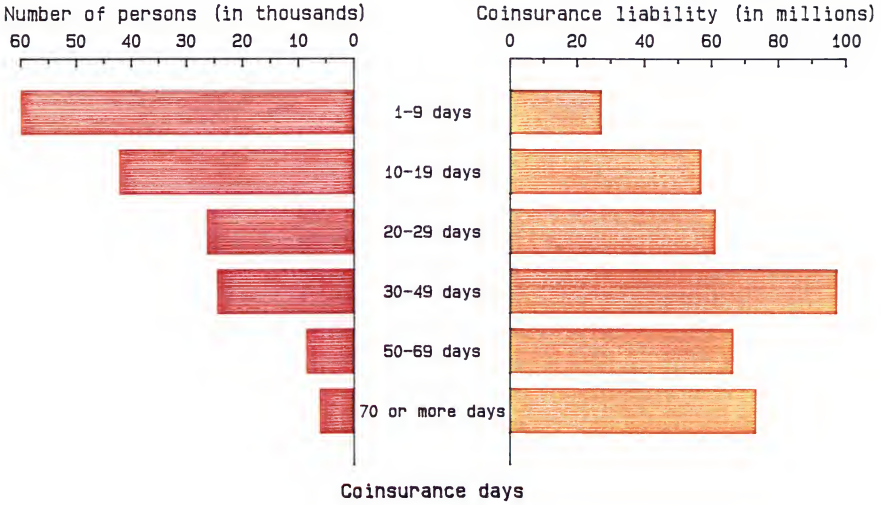
| Type of enrollment and number of coinsurance days 1/ | HI coinsurance 1/ | | | | | |
|---|---|---|---|---|---|---|
| | Persons | | Days | | Liability | |
| | Number | Percent | Number in thousands | Percent | Amount in thousands | Per person |
| **All persons** | | | | | | |
| Total | 168,525 | 100.0 | 3,408 | 100.0 | $383,112 | $2,273 |
| 1-9 days | 60,420 | 35.9 | 286 | 8.4 | 27,440 | 454 |
| 10-19 days | 42,250 | 25.1 | 594 | 17.4 | 57,102 | 1,352 |
| 20-29 days | 26,395 | 15.7 | 637 | 18.7 | 61,330 | 2,324 |
| 30-49 days | 24,625 | 14.6 | 880 | 25.8 | 96,828 | 3,932 |
| 50-69 days | 8,615 | 5.1 | 494 | 14.5 | 66,707 | 7,743 |
| 70 or more days | 6,220 | 3.7 | 518 | 15.2 | 73,705 | 11,850 |
| **Aged** | | | | | | |
| Total | 144,840 | 100.0 | 2,893 | 100.0 | 324,275 | 2,239 |
| 1-9 days | 52,505 | 36.3 | 249 | 8.6 | 23,776 | 453 |
| 10-19 days | 36,675 | 25.3 | 515 | 17.8 | 49,548 | 1,351 |
| 20-29 days | 22,500 | 15.5 | 543 | 18.8 | 52,269 | 2,323 |
| 30-49 days | 20,750 | 14.3 | 741 | 25.6 | 81,455 | 3,926 |
| 50-69 days | 7,260 | 5.0 | 416 | 14.4 | 56,142 | 7,735 |
| 70 or more days | 5,150 | 3.6 | 429 | 14.8 | 61,086 | 11,861 |
| **Disabled 2/** | | | | | | |
| Total | 23,685 | 100.0 | 515 | 100.0 | 58,838 | 2,484 |
| 1-9 days | 7,915 | 33.4 | 37 | 7.2 | 3,665 | 463 |
| 10-19 days | 5,575 | 23.5 | 79 | 15.3 | 7,554 | 1,355 |
| 20-29 days | 3,895 | 16.4 | 94 | 18.3 | 9,061 | 2,326 |
| 30-49 days | 3,875 | 16.4 | 139 | 27.0 | 15,373 | 3,967 |
| 50-69 days | 1,355 | 5.7 | 78 | 15.1 | 10,566 | 7,798 |
| 70 or more days | 1,070 | 4.5 | 89 | 17.3 | 12,618 | 11,793 |

1/ Includes coinsurance days and lifetime reserve days.
2/ Includes persons with end stage renal disease.

SOURCES: Health Care Financing Administration, Bureau of Data Management and Strategy: Data from the Medicare Statistical System, 1984; Health Care Financing Administration, Office of Research and Demonstrations: Data from the Medicare Statistical System, 1984.

# Figure 3

Medicare: Number of persons and amount of HI coinsurance liability for short-stay hospital services, by number of coinsurance days, 1984




Source: Office of Research and Demonstrations

Table 4 shows that the average cost-sharing liability per person varied little by age, sex, or race. The average liability per person was 13 percent higher for disabled beneficiaries ($534) compared with those of aged beneficiaries ($472). Within each enrollment group, however, there was little difference by age. By race, persons of all other races ($518) had an average liability that was slightly higher (9 percent) than those of white persons ($474). The average liability for males and females was nearly the same. The only substantial demographic difference was by region with the average total liability per person in the Northeast ($539) being about 22 percent higher than for those in the West ($441). Nearly all of this regional variation resulted from the use of coinsurance and lifetime reserve days. The average coinsurance liability per user ranged from $1,615 in the West to $2,713 in the Northeast, a difference of 68 percent.

**Tables 5-7: Change in beneficiary hospital insurance cost-sharing liability, 1983-84**

This section examines trends in the number of discharges, covered days of care, average length of stay, and HI cost-sharing liability for Medicare beneficiaries discharged from short-stay hospitals for 1969 to 1984. It, thereby, provides an overview of the impact of the prospective payment system (PPS) as related to changes in beneficiary liability from 1983 to 1984 and gives possible future effects on beneficiary liability.

As shown in Table 5, from 1969 to 1983 the number of short-stay hospital discharges increased steadily from 5.9 million to 11.4 million, an average annual rate of growth of 4.9 percent. Conversely, in 1984 the number of discharges fell to 10.9 million, a drop of 4.7 percent. Also, the annual discharge rate per 1,000 enrollees declined 6.2 percent from 387 in 1983 to 363 in 1984.

Similarly, the number of covered days of care rose from 77.2 million in 1969 to 109.2 million in 1983, an average annual rate of increase of 2.5 percent. However, in 1984 the number of covered days of care dropped 14.0 percent to 93.8 million. The average length of stay, which had declined slowly and steadily from 13.2 days in 1969 to 9.5 days in 1983, fell sharply in 1984 to 8.6 days. This decline of nearly a day far exceeded any previous annual decrease.

The changes in the hospital experiences of Medicare beneficiaries following the institution of PPS resulted in a decrease in the number of persons incurring a deductible (as shown in Table 6). Similarly, these changes caused a decrease in the number of deductibles incurred from 1983 to 1984. However, the total deductible amount and the deductible amount per person increased. This increase occurred because the deductible is determined by a formula based on the average hospital cost per day. Thus, a decrease in the average length of stay results in an increase in the average cost per day. Also, PPS was associated with a marked decrease (27 percent) in the number of persons incurring coinsurance days and the amount of coinsurance liability for these days. As a result, coinsurance liability accounted for about 12 percent of the total cost-sharing liability in 1984 as compared with 17 percent in 1983 (Figure 4).

The average deductible and coinsurance amounts for persons incurring liabilities rose from $436 in 1983 to $478 in 1984, an increase of 9.6 percent. The increase in the average deductible liability per person was even greater (16.5 percent) going from $364 in 1983 to $424 in 1984. This rise was the result of an increase in the deductible amount from $304 in 1983 to $356 in 1984, as there was no change in the number of deductibles incurred per person (1.2 per year) in these years.

As Table 7 shows, the average coinsurance amount incurred for persons using coinsurance days was $2,273 in 1984, virtually the same as in 1983 ($2,275). This average coinsurance amount reflected an increase (13.1 percent) in the average coinsurance liability per day from $99 in 1983 to $112 in 1984. Conversely, an offsetting decrease (12.2 percent) occurred in the average number of coinsurance days per person from 23.0 in 1983 to 20.2 in 1984. Algebraically, this relationship is shown by the equation:

$$\frac{\text{Coinsurance amount}}{\text{Persons}} = \frac{\text{Coinsurance days}}{\text{Persons}} \times \frac{\text{Coinsurance amount}}{\text{Coinsurance days}}$$

The large decline in average length of stay under PPS from 1983 to 1984 accounted for the sharp increase (23 percent) in the deductible amount from 1985 ($400) to 1986 ($492). This increase in the hospital deductible did not show up sooner because of the 2 year lag built into the formula for setting the deductible. The comparable increase in the annual deductible amount from 1983 to 1984 was 17 percent. Since the deductible represents by far the largest portion of the beneficiaries' aggregate cost-sharing liability, Congress recognized the potential for future increases in beneficiary cost-sharing liability.

Congress attempted to alleviate this problem by passing a provision in the 1986 Omnibus Budget Reconciliation Act (OBRA) which limited the increase in the HI deductible to $520 for 1987. Without OBRA legislation, the deductible would have risen to $572, resulting in an annual increase of 16 percent. However, beginning with the 1987 deductible, the amount of the deductible will increase by the same percent that is used in setting the PPS rate.

Table 4

Medicare: Number of persons and amounts of beneficiary hospital insurance (HI) cost-sharing liability incurred for beneficiaries discharged from short-stay hospitals, by type of enrollment and selected demographic characteristics, 1984

| Type of enrollment, age, sex, race, and region | Total | | | HI deductible | | | HI coinsurance 1/ | | |
|---|---|---|---|---|---|---|---|---|---|
| | Number of persons in thousands | Amount in millions | Amount per person | Number of persons in thousands | Amount in millions | Amount per person | Number of persons in thousands | Amount in millions | Amount per person |
| All persons | 6,647 | $3,175 | $478 | 6,592 | $2,792 | $424 | 168 | $383 | $2,273 |
| Type of enrollee | | | | | | | | | |
| Aged | 6,007 | 2,833 | 472 | 5,958 | 2,509 | 421 | 145 | 324 | 2,239 |
| Disabled 2/ | 641 | 342 | 534 | 634 | 283 | 446 | 24 | 59 | 2,483 |
| Age | | | | | | | | | |
| Under 35 years | 65 | 37 | 572 | 64 | 28 | 443 | 4 | 9 | 2,396 |
| 35-44 years | 76 | 41 | 544 | 75 | 34 | 449 | 3 | 8 | 2,334 |
| 45-54 years | 132 | 71 | 541 | 131 | 59 | 451 | 5 | 13 | 2,608 |
| 55-59 years | 142 | 75 | 528 | 140 | 63 | 449 | 5 | 12 | 2,473 |
| 60-64 years | 225 | 117 | 518 | 223 | 99 | 442 | 7 | 18 | 2,522 |
| 65-69 years | 1,447 | 673 | 465 | 1,439 | 599 | 416 | 31 | 74 | 2,354 |
| 70-74 years | 1,458 | 589 | 472 | 1,448 | 610 | 421 | 34 | 79 | 2,305 |
| 75-79 years | 1,279 | 608 | 475 | 1,269 | 538 | 424 | 32 | 70 | 2,200 |
| 80-84 years | 955 | 455 | 476 | 947 | 402 | 425 | 24 | 52 | 2,181 |
| 85 years and over | 867 | 409 | 472 | 856 | 360 | 421 | 23 | 49 | 2,100 |
| Sex | | | | | | | | | |
| Male | 2,902 | 1,388 | 478 | 2,879 | 1,221 | 424 | 74 | 167 | 2,263 |
| Female | 3,746 | 1,787 | 477 | 3,713 | 1,571 | 423 | 95 | 216 | 2,281 |
| Race 3/ | | | | | | | | | |
| White | 5,872 | 2,782 | 474 | 5,824 | 2,465 | 423 | 142 | 317 | 2,223 |
| All other | 598 | 310 | 518 | 592 | 253 | 427 | 22 | 57 | 2,598 |
| Region | | | | | | | | | |
| Northeast | 1,478 | 796 | 539 | 1,456 | 613 | 421 | 67 | 183 | 2,713 |
| North Central | 1,760 | 818 | 465 | 1,746 | 738 | 423 | 39 | 80 | 2,042 |
| South | 2,355 | 1,097 | 466 | 2,341 | 1,003 | 428 | 46 | 94 | 2,056 |
| West | 1,055 | 465 | 441 | 1,049 | 439 | 418 | 16 | 26 | 1,615 |

1/ Includes coinsurance days and lifetime reserve days.
2/ Includes persons with end stage renal disease.
3/ Excludes unknown race.

SOURCES: Health Care Financing Administration, Bureau of Data Management and Strategy: Data from the Medicare Statistical System, 1984; Health Care Financing Administration, Office of Research and Demonstations: Data from the Medicare Statistical System, 1984.

Table 5

Medicare: Number of discharges and covered days of care for beneficiaries discharged from short-stay hospitals, 1969-84

| Calendar year | Discharges | | Covered days of care | |
|---|---|---|---|---|
| | Number in thousands | Annual rate Per 1,000 enrollees | Number in thousands | Per discharge |
| 1969 | 5,852 | 292 | 77,246 | 13.2 |
| 1970 | 5,951 | 292 | 75,578 | 12.7 |
| 1971 | 6,090 | 294 | 74,298 | 12.2 |
| 1972 | 6,380 | 302 | 75,284 | 11.8 |
| 1973 | 6,984 | 300 | 79,976 | 11.5 |
| 1974 | 7,629 | 319 | 86,193 | 11.3 |
| 1975 | 8,001 | 325 | 87,656 | 11.0 |
| 1976 | 8,465 | 334 | 91,770 | 10.8 |
| 1977 | 8,808 | 338 | 95,119 | 10.8 |
| 1978 | 9,216 | 344 | 97,598 | 10.6 |
| 1979 | 9,642 | 351 | 100,521 | 10.4 |
| 1980 | 10,279 | 366 | 106,512 | 10.4 |
| 1981 | 10,660 | 368 | 107,233 | 10.1 |
| 1982 | 11,109 | 382 | 109,249 | 9.8 |
| 1983 | 11,436 | 387 | 109,189 | 9.5 |
| 1984 | 10,896 | 363 | 93,848 | 8.6 |

SOURCES: Health Care Financing Adminstration, Bureau of Data Management and Strategy: Data from Medicare Statistical System, 1984; Health Care Financing Adminstration, Office of Research and Demonstrations: Data from Medicare Statistical System, 1984.

Table 6

Medicare: Number of persons, deductibles, coinsurance days, and amount of liability for beneficiaries discharged from short-stay hospitals, by type of enrollment, calendar year, and percent change, 1983 and 1984

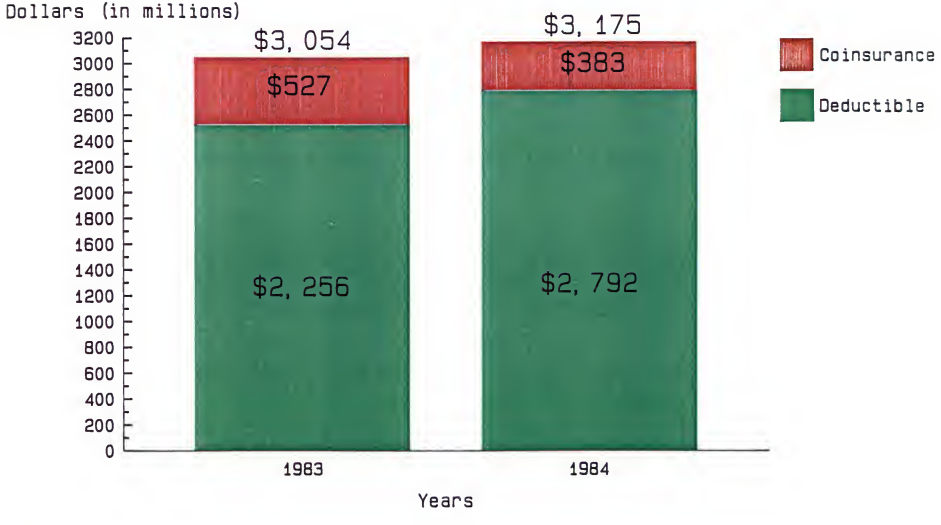
| Type of enrollment, calendar year, and percent change | Number of persons incurring HI cost-sharing liability | | | Number of deductibles | Number of coinsurance days 1/ | Beneficiary HI cost-sharing liability | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Total | | Deductible | | Coinsurance | |
| | Total | Deductible | Coinsurance 1/ | | | Amount in millions | Per person | Amount in millions | Per person | Amount in millions | Per person |
| All persons | In thousands | | | | | | | | | | |
| 1983 | 7,007 | 6,934 | 232 | 8,342 | 5,332 | $3,054 | $436 | $2,526 | $364 | $527 | $2,275 |
| 1984 | 6,647 | 6,592 | 169 | 7,873 | 3,408 | 3,175 | 478 | 2,792 | 424 | 383 | 2,273 |
| Percent change | -5.1 | -4.9 | -27.2 | -5.6 | -36.1 | 4.0 | 9.6 | 10.5 | 16.5 | -27.3 | -0.1 |
| Aged | | | | | | | | | | | |
| 1983 | 6,304 | 6,239 | 201 | 7,460 | 4,515 | 2,703 | 429 | 2,259 | 362 | 444 | 2,214 |
| 1984 | 6,007 | 5,958 | 145 | 7,075 | 2,893 | 2,833 | 472 | 2,509 | 421 | 324 | 2,239 |
| Percent change | -4.7 | -4.5 | -27.9 | -5.2 | -35.9 | 4.8 | 10.0 | 11.1 | 16.3 | -27.0 | 1.1 |
| Disabled 2/ | | | | | | | | | | | |
| 1983 | 703 | 695 | 31 | 882 | 816 | 350 | 498 | 267 | 384 | 83 | 2,665 |
| 1984 | 641 | 634 | 24 | 798 | 515 | 342 | 534 | 283 | 446 | 59 | 2,483 |
| Percent change | -9.0 | -8.8 | -22.6 | -9.5 | -37.0 | -2.6 | 7.0 | 6.0 | 16.1 | -28.9 | -8.2 |

1/ Includes coinsurance days and lifetime reserve days.
2/ Includes persons with end stage renal disease.

SOURCES: Health Care Financing Administration, Bureau of Data Management and Strategy: Data from the Medicare Statistical System, 1984; Health Care Financing Administration, Office of Research and Demonstrations: Data from the Medicare Statistical System, 1984.

Figure 4

Medicare: Total HI cost-sharing liability for beneficiaries using short-stay hospital services, by type of liability, 1983-84




Source: Office of Research and Demonstrations

Table 7

Medicare: Amount of coinsurance and number of coinsurance days per person, and coinsurance amount per day for beneficiaries discharged from short-stay hospitals, by type of enrollment, calendar year and percent change, 1983-84

| Type of enrollment, calendar year, and percent change | Amount per person 1/ | Number of coinsurance days per person 1/ | Amount of coinsurance per day 1/ |
|---|---|---|---|
| All persons | | | |
| 1983 | $2,275 | 23.0 | $99 |
| 1984 | 2,273 | 20.2 | 112 |
| Percent change | -0.9 | -12.2 | 13.1 |
| Aged | | | |
| 1983 | 2,214 | 22.5 | 98 |
| 1984 | 2,239 | 20.0 | 112 |
| Percent change | 1.1 | -11.1 | 14.3 |
| Disabled 2/ | | | |
| 1983 | 2,665 | 26.2 | 102 |
| 1984 | 2,483 | 21.8 | 114 |
| Percent change | -6.8 | -16.8 | 11.8 |

1/ Includes coinsurance days and lifetime reserve days.
2/ Includes persons with end stage renal disease.

SOURCES: Health Care Financing Administration, Bureau of Data Management and Strategy: Data from the Medicare Statistical System, 1983 and 1984; Health Care Financing Administration, Office of Research and Demonstrations: Data from the Medicare Statistical System, 1983 and 1984.

## Summary

Medicare now covers the cost of a substantial portion of hospital, physician, and related medical care services to most aged and severely disabled persons in the United States population. The Medicare program, however, has some coverage gaps that leave this population vulnerable to large inpatient out-of-pocket expenses. As a result, approximately two-thirds of all aged Medicare beneficiaries have some type of private health insurance coverage in addition to Medicare.

Dr. Otis Bowen, Secretary of the Department of Health and Human Services (DHHS), under a Presidential mandate, developed and submitted a proposal to restructure the Medicare benefit program to protect the elderly against the costs of catastrophic illness. Several developments have increased the probability that Congress will enact some form of Dr. Bowen's Medicare catastrophic health insurance plan. These developments include the rising costs of health care, the growing congressional support for catastrophic health insurance legislation, and as highlighted in this Brief, the potentially large burden of beneficiary HI cost-sharing liability arising from prolonged illness requiring multiple hospitalizations or a long stay in a hospital.

A major argument made for the proposed Medicare catastrophic insurance plan is that such protection can be provided more efficiently and economically through a restructure of the basic Medicare benefit program than through the private sector. DHHS has estimated that the Administration's Medicare catastrophic insurance plan, with an annual cost-sharing liability limit of $2,000, would require an additional $72 in the annual Part B premium beginning in calendar year 1988. Cost comparison with private insurance policies that supplement Medicare is difficult because such policies generally offer coverage of the inpatient deductible and initial Part B coinsurance as well as catastrophic protection. However, by recognizing marketing costs, sales commissions, and costs of a separate claims processing system, comparable catastrophic protection offered through the private sector would be more costly. An additional advantage cited in arguments favoring a restructured Medicare benefit plan is that it will simplify the coverage. Furthermore, improved understanding and predictability of out-of-pocket liability will facilitate more informed beneficiary decisions regarding private Medicare supplemental insurance.

The data are intended to assist discussions on designing a Medicare HI benefit plan to protect the elderly against large and potentially catastrophic out-of-pocket hospital expenses. It is hoped that such a plan will promote the Administration's goal of relieving the fear of large debts for liabilities caused by serious illness and prolonged hospitalization.

## Source and limitations of data

The data shown in this Brief were derived from the Health Care Financing Administration (HCFA) short-stay hospital inpatient stay record file. This file is generated by linking information from three HCFA master program files for a 20-percent sample of Medicare beneficiaries. The statistical stay record, thereby, provides information on the patient, the hospital, and the hospitalization. Sample counts were multiplied by 5 to estimate population totals. Therefore, the data are subject to sampling variability.

The data represent those inpatient records received and processed in HCFA as of December 1985. Discharges for 1984 recorded after that date were not included. Therefore, a complete count of all Medicare discharges during 1984 will probably total about 2 percent more than for the figures used in this study.

## Definition of terms

Short-stay hospitals: General and special hospitals certified as participating facilities under Medicare and reporting average stays of less than 25 days.

Discharge: The formal release of an inpatient from a hospital. Discharges include those persons who died during their hospitalization.

Hospital charges: The hospital's charges for room, board, and ancillary services as recorded on the billing form (HCFA 1450).

Covered day of care: A day of inpatient hospital care during which the services covered under the Medicare program were furnished to a person eligible for hospital insurance benefits.

Deductibles: Deductibles are the amounts paid by enrollees for covered services before Medicare makes reimbursement. The hospital insurance deductible, which is applied to each new benefit period, is determined every year by a formula specified by law. This deductible approximates the current cost of a 1-day inpatient hospital stay.

Coinsurance: After subtraction of any deductible, coinsurance is that portion of reimbursable hospital expenses which Medicare does not cover. Under hospital insurance, there is no coinsurance for the first 60 days of inpatient hospital care. From the 61st through the 90th day of inpatient care, the daily coinsurance amount is equal to one-fourth of the inpatient hospital deductible. For each of the 60-lifetime reserve days used, the daily coinsurance amount is equal to one-half of the inpatient hospital deductible.

Benefit period: A benefit period is the period used to define Medicare benefits in the hospital insurance program. A benefit period begins the 1st day an enrollee is furnished inpatient hospital services by a qualified provider and ends when the enrollee has not been an inpatient for 60 consecutive days. There is no limit to the number of benefit periods an enrollee can have. The enrollee must pay the hospital insurance deductible for each new benefit period.

**Lifetime reserve days:** A Medicare hospital insurance enrollee has a nonrenewable lifetime reserve of 60 days of inpatient hospital care to draw on if the 90 covered days per benefit period are exhausted.

## Recent releases

The following Health Care Financing Research Briefs were recently disseminated and are available upon request from the Office of Research and Demonstrations, Office of Research, Division of Program Studies, Information Services Branch:

- No. 85 - 1 Medicare: Inpatient Use of Short-Stay Hospitals, 1983
- No. 85 - 2 Hospital Outpatient Services Under Medicare: Trends and Demographic Variations, 1983
- No. 85 - 3 Medicare: Use and Charges for Inpatient Services in Short-Stay Hospitals, by Diagnosis-Related Groups, Calendar Years 1981 and 1984
- No. 85 - 4 Medicare: Surgical Procedures in Short-Stay Hospitals, by Census Region, 1983
- No. 86 - 1 Medicare: Use and Cost of Home Health Agency Services, 1983
- No. 86 - 2 Medicare: Participating Providers and Suppliers of Health Services, December 1985
- No. 86 - 3 Raising the Age of Eligibility for Medicare to Age 67
- No. 86 - 4 Medicare: Use of Skilled Nursing Facilities, 1984
- No. 87 - 1 Medicare: Inpatient Use of Short-Stay Hospital Services by Beneficiaries with a Diagnosis of Diabetes Mellitus, 1984
- No. 87 - 2 Medicare: Use of Specialty Hospitals, 1985

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